



King Sabata Dalindyebo Local Municipality
Financial statements
for the year ended 30 June 2014

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

General Information

Nature of business and principal activities

King Sabata Dalindyebo Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998).

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Councillors

Cllr N Ngqongwa

Cllr DM Zozo

Cllr ZM Gusana

Cllr FRS Ngcobo

Cllr N.R Gcingca

Cllr MS Mlandu

Cllr L.R Madyibi

Cllr F.M Mtwla

Cllr L.N Ntlonze

Cllr N.A Ndlela

Cllr GN Nelani

Cllr LS Nduku (Resigned)

Cllr PP Nontshiza

Cllr KN Kwetana

Cllr MH Mtirara

Cllr N Mtwla

Cllr B Ndlobongela

Cllr SSN Qina

Cllr M Mavukwana

Cllr V Dangala

Cllr FV Dondashe

Cllr K K Mdikane

Cllr ZN Mncunza

Cllr NC Mvusi -Deceased

Cllr NF Mzimane

Cllr MM Ngabayena

Cllr SS Njemla

Cllr KW Tsipa

Cllr S Mlamli

Cllr TE Mapekula

Cllr M Menzelwa

Cllr B Momoza

Cllr MI Xentsa

Cllr EM Fileyo

Cllr N Sikonkotela

Cllr N Mpenyama

Cllr B Mazini

Cllr GN Jijana

Cllr MA Zimela

Cllr LL Mkhonto

Cllr MT Mtirara

Cllr VN Xhobani

Cllr M Mtirara

Cllr VN Roji

Cllr M Nyoka

Cllr T Nqadolo

King Sabata Dalindyebo Local Municipality

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General Information

Cllr VO Gwadiso
Cllr N Nyangani
Cllr NS Kwaza
Cllr XT Matiti
Cllr NM Luqhide
Cllr T Nomvete
Cllr M Bunzana
Cllr N Pali
Cllr LA Tshiseka
Cllr J Dlamini
Cllr M Plam
Cllr WV Sanda
Cllr LM Luwaca
Cllr M Gogo
Cllr N Qwase
Cllr HN Maroloma
Cllr R Knock
Cllr BD Bara
Cllr ZV Maqabuka
Cllr Z Magazi
Cllr MJ Msakeni
Cllr M Jafta
Cllr AZ Luyenge
Cllr S Budu
Cllr N Nyengane
Cllr L Madyibi
Cllr ZM Gusana
Cllr S Peters Resigned

Grading of local authority

Grade 4

Chief Finance Officer (CFO)

Nomtandazo Ntshanga

Registered office

Munitata Building
Sutherland Street
Mthatha

Postal address

Private Bag X5083
Mthatha
5099

Bankers

ABSA
FNB

Auditors

Auditor General of South Africa

King Sabata Dalindyebo Local Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
FMG	Finance Management Grant
Cllr	Councillor

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.


The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page xx.

The financial statements set out on pages 1- 66, which have been prepared on the going concern basis, were approved on the 29 August 2014 by the accounting officer.



Accounting Officer
N Soldati

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	7	5 045 907	3 098 799
Receivables from exchange transactions	8	43 511 152	74 449 159
Receivables from non-exchange transactions	9	31 095 172	14 624 956
Prepayments		361 008	41 950
Cash and cash equivalents	10	127 472 900	238 113 748
		207 486 139	330 328 612
Non-Current Assets			
Investment property	3	276 087 900	124 511 350
Property, plant and equipment	4	2 133 609 064	2 224 070 575
Intangible assets	5	440 080	185 393
Heritage assets	6	4 697 000	4 363 000
		2 414 834 044	2 353 130 318
Total Assets		2 622 320 183	2 683 458 930
Liabilities			
Current Liabilities			
Other financial liabilities	16	10 878 973	8 957 937
Finance lease obligation	14	-	148 790
Payables from exchange transactions	18	183 503 101	362 999 252
Taxes and transfers payable (non-exchange)	19	952 297	-
VAT payable	20	36 305 003	76 575 588
Consumer deposits	21	11 342 565	2 977 571
Unspent conditional grants and receipts	15	110 684 162	137 861 058
		353 666 101	589 520 196
Non-Current Liabilities			
Other financial liabilities	16	208 987 832	59 169 214
Provisions	17	45 456 505	44 879 824
		254 444 337	104 049 038
Total Liabilities		608 110 438	693 569 234
Net Assets		2 014 209 745	1 989 889 696
Net Assets			
Reserves			
Revaluation reserve	11	388 078 030	248 478 830
Insurance reserve	12	2 370 759	2 071 872
Accumulated surplus	13	1 623 760 956	1 739 338 991
Total Net Assets		2 014 209 745	1 989 889 693

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	25	254 098 773	250 824 945
Rental of facilities and equipment		14 635 149	13 412 900
Licences and permits		12 300 926	11 525 712
Decrease in provision		-	157 077 441
Other income	28	20 510 660	9 337 420
Interest received	34	25 972 596	30 387 161
Dividends received	34	-	3 754
Total revenue from exchange transactions		327 518 104	472 569 333
Revenue from non-exchange transactions			
<i>Taxation revenue</i>			
Property rates	24	151 866 136	136 097 059
<i>Transfer revenue</i>			
Government grants & subsidies	26	387 056 229	279 251 999
Public contributions and donations	27	-	851 200
Fines		1 351 313	2 063 415
Total revenue from non-exchange transactions		540 273 678	418 263 673
Total revenue	23	867 791 782	890 833 006
Expenditure			
Personnel	30	(262 588 049)	(258 628 964)
Remuneration of councillors	31	(21 462 639)	(19 035 731)
Management fees	32	-	(1 165 958)
Depreciation and amortisation	36	(338 351 974)	(109 035 500)
Impairment loss	37	(95 463 092)	(6 319)
Finance costs	38	(12 832 356)	(5 471 875)
Debt impairment	33	(42 109 869)	(25 676 864)
Repairs and maintenance		(29 912 742)	(30 425 981)
Bulk purchases	43	(169 382 372)	(160 819 674)
Contracted services	41	(15 353 011)	(17 113 837)
Grants and subsidies paid	42	(34 960 383)	(27 882 836)
General Expenses	29	(134 876 537)	(116 488 225)
Total expenditure		(1 157 293 024)	(771 751 764)
Operating (deficit) surplus		(289 501 242)	119 081 242
Gain (loss) on disposal of assets and liabilities		13 158	(4 229 022)
Fair value adjustments	35	151 638 050	21 827 397
		151 651 208	17 598 375
(Deficit) surplus for the year		(137 850 034)	136 679 617

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Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	132 725 884	-	132 725 884	1 097 621 765	1 230 347 649
Adjustments					
Correction of errors	-	-	-	506 566 179	506 566 179
Change in accounting policy	-	-	-	-	-
Reclassification of insurance reserve	-	1 528 570	1 528 570	(1 528 570)	-
Balance at 01 July 2012 as restated*	132 725 884	1 528 570	134 254 454	1 602 659 374	1 736 913 828
Changes in net assets					
Cash flow hedges, net of tax					
• Fair value gains in the year	116 258 046	-	116 258 046	-	116 258 046
Current Year Movement	(505 100)	543 302	38 202	-	38 202
Net income (losses) recognised directly in net assets	115 752 946	543 302	116 296 248	-	116 296 248
Surplus for the year	-	-	-	136 679 617	136 679 617
Total recognised income and expenses for the year	115 752 946	543 302	116 296 248	136 679 617	252 975 865
Total changes	115 752 946	543 302	116 296 248	136 679 617	252 975 865
Balance at 01 July 2013	248 478 830	2 071 872	250 550 702	1 739 338 991	1 989 889 693
Changes in net assets					
Revaluation of Land and Buildings	139 599 200	-	139 599 200	-	139 599 200
Current Year Addition	-	298 887	298 887	-	298 887
Correction of error	-	-	-	22 271 999	22 271 999
Net income (losses) recognised directly in net assets	139 599 200	298 887	139 898 087	22 271 999	162 170 086
Surplus for the year	-	-	-	(137 850 034)	(137 850 034)
Total recognised income and expenses for the year	139 599 200	298 887	139 898 087	(115 578 035)	24 320 052
Total changes	139 599 200	298 887	139 898 087	(115 578 035)	24 320 052
Balance at 30 June 2014	388 078 030	2 370 759	390 448 789	1 623 760 956	2 014 209 745
Note(s)	11	12			

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Receipts from customers		505 913 024	300 179 959
Grants		353 272 581	492 276 973
Interest income		5 238 934	9 561 532
Dividends received		-	3 754
Donations received		-	851 000
		<u>864 424 539</u>	<u>802 873 218</u>
Payments			
Employee costs		(277 365 868)	(263 232 656)
Suppliers		(655 766 698)	(252 521 157)
Finance costs		(11 826 184)	(5 631 255)
Other payments		-	1
		<u>(944 958 750)</u>	<u>(521 385 067)</u>
Net cash flows from operating activities	44	(80 534 211)	281 488 151
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(174 198 794)	(249 945 879)
Purchase of other intangible assets	5	(337 245)	(450 498)
Acquisition of Self Insurance		252 632	252 632
Net cash flows from investing activities		(174 283 407)	(250 143 745)
Cash flows from financing activities			
Payment of loans		(15 674 440)	(12 373 655)
Finance lease payments		(148 790)	(108 544)
Receipt from LGTA		160 000 000	-
Net cash flows from financing activities		144 176 770	(12 482 199)
Net increase/(decrease) in cash and cash equivalents		(110 640 848)	18 862 207
Cash and cash equivalents at the beginning of the year		238 113 748	219 251 541
Cash and cash equivalents at the end of the year	10	127 472 900	238 113 748

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	265 256 546	1 385 693	266 642 239	253 991 903	(12 650 336)	
Rental of facilities and equipment	15 417 920	838 386	16 256 306	14 635 149	(1 621 157)	
Licences and permits	15 296 527	342 194	15 638 721	12 300 926	(3 337 795)	
Other income	36 223 346	6 752 282	42 975 628	20 510 660	(22 464 968)	
Interest received - investment	33 035 823	(2 044 937)	30 990 886	25 972 596	(5 018 290)	
Total revenue from exchange transactions	365 230 162	7 273 618	372 503 780	327 411 234	(45 092 546)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	146 761 137	7 170 000	153 931 137	151 866 136	(2 065 001)	
Government grants & subsidies	407 114 474	2 459 259	409 573 733	387 056 229	(22 517 504)	
Transfer revenue						
Fines	3 600 798	-	3 600 798	1 351 313	(2 249 485)	
Total revenue from non-exchange transactions	557 476 409	9 629 259	567 105 668	540 273 678	(26 831 990)	
Total revenue	922 706 571	16 902 877	939 609 448	867 684 912	(71 924 536)	
Expenditure						
Personnel	(267 937 258)	12 551 071	(255 386 187)	(262 588 049)	(7 201 862)	
Remuneration of councillors	(19 067 584)	(2 932 416)	(22 000 000)	(21 462 639)	537 361	
Depreciation and amortisation	(125 237 268)	12 495 334	(112 741 934)	(338 351 974)	(225 610 040)	
Impairment loss/ Reversal of impairments	-	-	-	(95 463 092)	(95 463 092)	
Finance costs	(5 286 247)	(6 656 138)	(11 942 385)	(12 832 356)	(889 971)	
Debt impairment	(68 161 554)	-	(68 161 554)	(42 109 869)	26 051 685	
Repairs and maintenance	(45 226 879)	16 518 645	(28 708 234)	(29 912 742)	(1 204 508)	
Bulk purchases	(181 850 296)	-	(181 850 296)	(169 382 372)	12 467 924	
Contracted Services	(10 935 859)	(3 000 000)	(13 935 859)	(15 353 011)	(1 417 152)	
Grants and subsidies paid	(35 112 807)	(2 351 516)	(37 464 323)	(34 960 383)	2 503 940	
Loss on disposal of assets	-	-	-	-	-	
General Expenses	(148 677 658)	(44 678 846)	(193 356 504)	(134 876 537)	58 479 967	
Total expenditure	(922 751 191)	(47 130 713)	(969 881 904)	(1 157 293 024)	(187 411 120)	
Operating deficit	(44 620)	(30 227 836)	(30 272 456)	(289 608 112)	(259 335 656)	
Gain on disposal of assets and liabilities	-	-	-	13 158	13 158	
Fair value adjustments	-	-	-	151 638 050	151 638 050	
Deficit before taxation	(44 620)	(30 227 836)	(30 272 456)	(137 956 904)	(107 684 448)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(44 620)	(30 227 836)	(30 272 456)	(137 956 904)	(107 684 448)	

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

These accounting policies are consistent with the previous period. The following accounting standards have been issued by the ASB and are effective from 1 April 2012, which are applicable to the operations of the municipality during the current financial period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Asset Management and Intangible Assets

Assets: Management is required to exercise judgement when assessing the fair value/deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.

Intangible Assets: Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - **Provisions**.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The Municipality makes use of government bond rate to discount future cash flows in the event of it being material.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property if property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations is established by using the criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is subsequently carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated as it is regarded as having an infinite life. Land and Buildings are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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Financial Statements for the year ended 30 June 2014

Accounting Policies

1.5 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of land and buildings is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Infinite
Buildings	5-130 years
Plant and machinery	5-10 years
Furniture and fixtures	3-5 years
Office equipment	5-7 years
Computer equipment	5-7 years
Infrastructure	
• Roads and paving	30 years
• Access roads	3 years
• Pedestrian malls	30 years
• Electricity	10-50 years
• Sewerage	15-20 years
Community	
• Buildings	30-130 years
• Recreational equipment	20-30 years
• Security	5 years
• Halls	130 years
• Libraries	130 years
• Parks and gardens	20-30 years
• Sport fields	20-30 years
Other property, plant and equipment	
• Other vehicles	5 years
• Other items of plant and equipment	7-10 years
• Landfill sites	10 years
• Fire engines	10-20 years
Bins and containers	5 years
Other leased Assets	
• Motor vehicles	5 years
Laboratory equipment	5-7 years
Specialised vehicles	10 years
Heritage	Infinite
Cemetery	25-30 years
Stadium	25-30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:

is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	2-5 years

Intangible assets are derecognised:

on disposal; or

when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

King Sabata Dalindyebo Local Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	At fair value
Receivables from non-exchange transactions	At fair value
Cash and cash equivalents	At fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities (current portion)	Financial liability measured at amortised cost
Payables from exchange transactions	At fair value
Other financial liabilities (long term)	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.